Briefing Note

JOINT SHARE OWNERSHIP PLAN (JSOP)

JSOPs are a potentially favourable route for companies who want to incentivise employees by way of growth in share value in much the same way as approved option schemes, such as the Enterprise Management Incentive (EMI) plan. It tends to be used where EMI is not available; for larger companies, investment companies, companies carrying on a non-qualifying trade or in subsidiaries. JSOPs deliver value on growth achieved.

Unlike some other share incentives (e.g. hurdle shares), JSOPs do not require significant changes to share rights and articles of association.

How JSOPs work

As a broad outline:

- An employee, together with a third party, the “co-owner” (usually a trust) jointly acquires shares in the company
- The co-owner and the employee enter into a “joint ownership agreement” setting out the terms on which the shares are held, governing proceeds on an exit, dividends and votes, as well as covering the position on leavers
- This will normally give the employee the right to all of the growth above the set value, while the co-owner is entitled to the set value

JSOP interests can be performance-linked.

JSOPs provide a similar outcome to growth (or hurdle) shares or premium priced options.

The tax position for the employee

The employee will be subject to income tax on the value of their JSOP interest at the time they receive it, if they do not pay market value. This can be relatively low as the employee’s interest only acquires significant value as the company grows. The employee’s value on exit will then be charged to capital gains tax.

Valuation method

Valuation is key to ensure a JSOP functions as expected, both commercially and in terms of tax outcome.

The valuation position is complex and detailed advice should be sought.

The company’s position

JSOPs require detailed thought and planning before implementation to ensure they are executed correctly and are suitable for all parties. They require a co-owner, and the acquisition of the shares has to be funded. There are also corporate tax and company law issues that need to be considered.

However, JSOPs are set up to incentivise employees to work towards increasing company value and so generate value for both the employer and the employee.

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